Research &
Forecast Report

METRO DENVER | INDUSTRIAL
Q2 2017

Denver's Industrial Sector Attracting National Attention

Market Overview

Second quarter positive net absorption doubled that of the first quarter total tallying more than 1.1 million square feet. The demand for large blocks of space is evolving as the number of large deals has increased significantly over the last three years. However, a lack of qualified construction laborers and ever-increasing construction costs is impacting the pace of construction. Denver is experiencing significant development and growth during the current cycle, but many smaller tenants are forced to make do with their current space, as rates for new space continues to rise. This allows well-capitalized, larger occupiers the opportunity to consolidate space while others are left to occupy multiple locations. As the metro population continues to surge, the need for large blocks of space will perpetuate as commerce keeps pace with an expanding market. Industrial investment activity remains robust, as many buyers allocate more capital to the sector that has become Denver's most reliable asset class.

Highlighted Trends

- Metro deliveries increased during Q2 totaling more than 1.1 million square feet.
- 10 out of 15 submarkets realized positive net absorption during Q2.
- Second quarter industrial sales activity totaled approximately $211 million across 21 transactions with an average sales price per square foot of $81.
- Unemployment rate in Metro Denver currently sits at 2.3 percent – national unemployment at 4.4 percent.
- Nationwide cost of construction experienced an increase of 1.2 percent from the previous quarter and 5.0 percent year-over-year, according to the Q2 2017 Turner Construction Cost Index.
- The June 2017 Manufacturing ISM Report on Business stated that economic activity in the manufacturing sector expanded and grew for the 97th consecutive month, with an increase in the PMI of 2.9 percentage points since May 2017.

Market Indicators

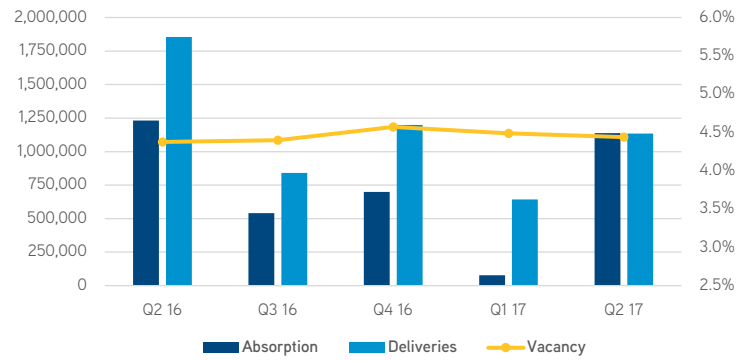
Relative to prior period	Q2 2017	Projected Q3 2017
Vacancy	↓	↔
Net Absorption	+	+
Deliveries	↑	↑
Rental Rate	↑	↔

*Arrows compare current quarter to the previous quarter's historically adjusted figures

Denver Metro Summary Statistics

	Q2 2016	Q2 2017
Vacancy Rate	4.4%	4.4%
Absorption YTD	1,141,959	1,214,721
Deliveries YTD	2,155,173	1,778,423
Under Construction	2,894,424	3,372,643
Asking Rents/SF	$7.97	$7.96
Total SF	226,400,416	229,473,704

Denver Industrial Market Q2 2016 – Q2 2017



Second quarter positive net absorption totaled approximately 1.13 million square feet.

Absorption

Second quarter absorption in Metro Denver totaled more than 1.1 million square feet as 10 of the metro's 15 submarkets recorded positive absorption. Approximately 58 percent of second quarter absorption came from the East I-70/Montbello submarket with the occupancy of three major tenants. Breakthru Beverage, Best Buy, and UPS took occupancy of their facilities accounting for more than 1.2 million square feet of newly occupied space.

Vacancy

Metro vacancy once again remained relatively steady compared to the previous four quarters. The second quarter vacancy rate was 4.4 percent. First half leasing activity is down compared to the first half of 2016 as a result of a diminishing supply of suitable space, particularly for tenants on the smaller end of the spectrum. This should not be misconstrued as a lack of demand in the market, rather, it demonstrates that many occupiers are waiting for prime space that specifically meets the tenant's needs. With nearly 65 percent of metro's new supply pre-leased upon delivery, vacancy will likely remain near the 4.4 percent rate.

Deliveries & Construction

Deliveries increased quarter-over-quarter nearly doubling the first quarter total. Approximately 1.13 million square feet of inventory was delivered during the second quarter, with the East I-70/Montbello submarket contributing more 1 million square feet of new product. East I-70/Montbello continues to lead all other submarkets for deliveries and overall construction activity, and currently has more than 2 million square feet of the metro's 3.34 million square feet of total under construction inventory. Upon the delivery of current construction projects, Denver's inventory will increase to nearly 233 million square feet.

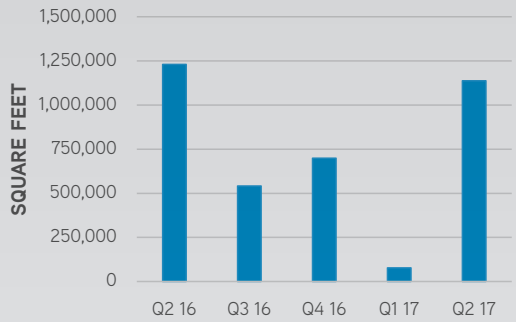
Rental Rates

Much like the overall vacancy rate, overall asking rental rates have remained relatively stable over the last year and a half. The industrial sector experienced a slight increase from the previous quarter to $7.96 per square foot – up $0.11 per square foot from Q1. However, asking rates have fluctuated between $7.75 and $7.99 per square foot since Q4 2015, suggesting the stabilizing of asking rates after years of record-breaking increases. Even though rates appear to have stabilized, new, higher-priced space coupled with increasing construction costs, will likely keep upward pressure on rates for the foreseeable future.

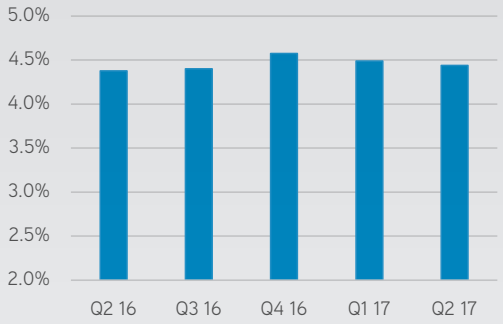
Sales Activity

There were 21 transactions in the Metro Denver industrial market during the second quarter totaling approximately $211 million in sales volume with an average price per square foot of $81. The 2017 mid-year total is up from the previous 2016 mid-year total by nearly 32 percent. So far during 2017, the buyer composition is relatively similar to 2016, as private and institutional buyers remain the dominant players in the sector. Notable second quarter transactions were located in Longmont and Denver with the sale of The Campus at Longmont transacting $69.6 million, and the Clear Creek Business Center, which sold for $18.1 million. Intense demand for industrial investment is projected to continue. In summary, Denver's industrial sector is attracting national attention from both users and investors.

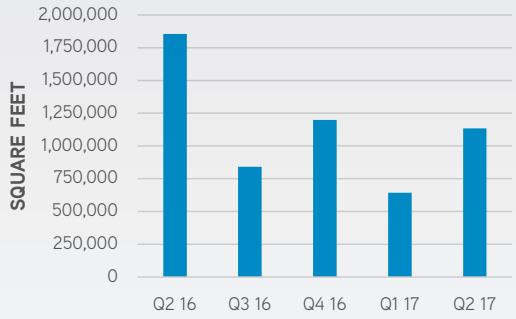
Absorption



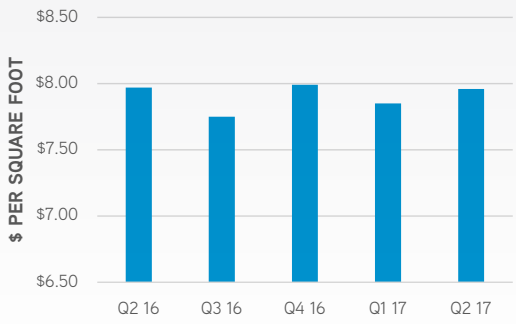
Vacancy



Deliveries



Rental Rates



Recent Transactions

Industrial – Denver - Sales Activity

PROPERTY	SUBMARKET	SALES PRICE	SIZE SF	PRICE PSF	BUYER	SELLER
Campus at Longmont	Boulder	$69,600,000	1,130,000	$62	Gibralt Capital	Goff Capital Partners
Clear Creek Business Center	Northwest	$18,100,000	187,865	$96	Watumull Properties	Etkin Johnson Group
3890 South Windermere Street	Southwest	$12,670,000	191,009	$66	Winslow Construction Co.	Drake RE Services

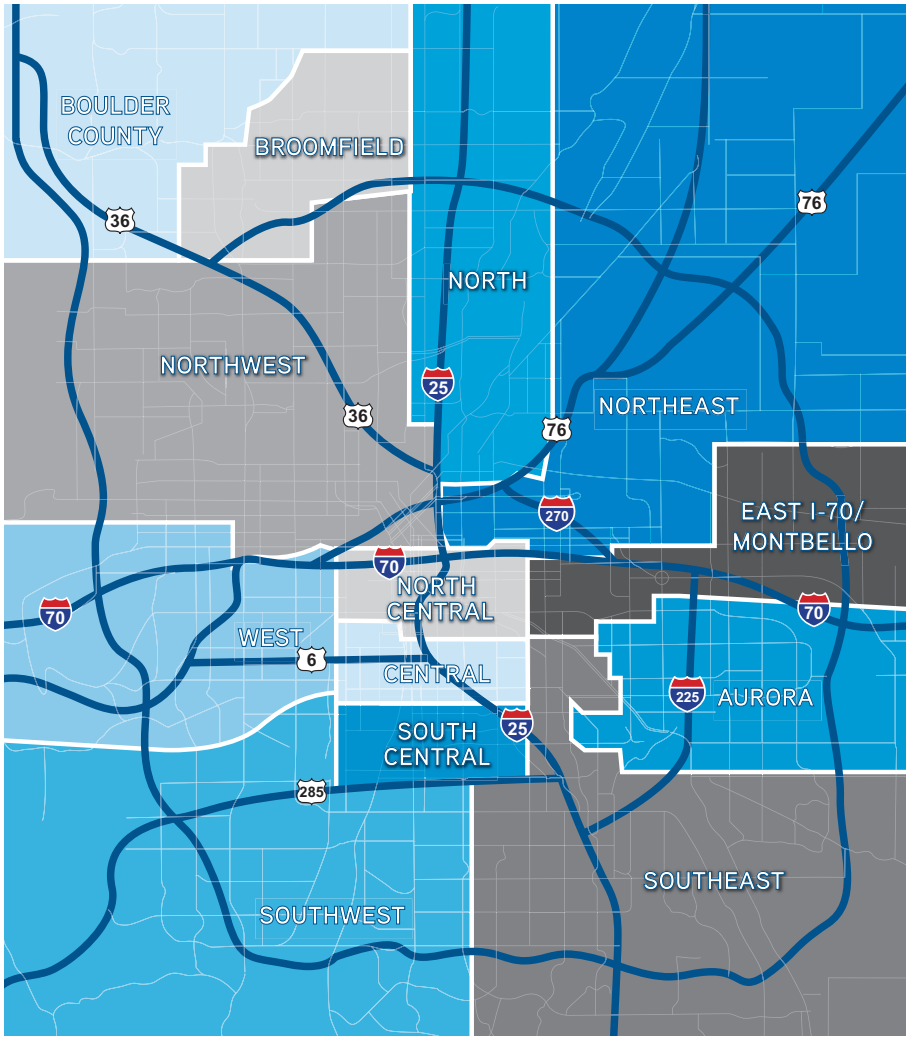
Industrial – Denver - Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	LEASE TYPE	TENANT NAME
21301 East 33rd Drive	East I-70/Montbello	181,348	New	Kwal Paint
3225 North Himalaya Road	East I-70/Montbello	166,670	New	Electrolux
19754 East 35th Drive	East I-70/Montbello	155,033	New	Quality Custom Distribution

Industrial Overview

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIEVERIES CURRENT QTR SF	DELIEVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)
AURORA													
Industrial	25	579,714	0.0%	0.0%	0.0%	0.6%	2,000	3,625	1,000	-	-	-	N/A
Flex	13	554,538	17.5%	1.1%	18.6%	18.6%	-	-	(9,648)	-	-	-	$7.45
Total	**38**	**1,134,252**	**8.6%**	**0.5%**	**9.1%**	**9.4%**	**2,000**	**3,625**	**(8,648)**	**-**	**-**	**-**	**$7.45**
BOULDER													
Industrial	246	9,647,243	4.3%	1.2%	5.4%	5.8%	26,000	14,908	8,924	-	-	-	$11.99
Flex	112	5,133,949	5.0%	0.2%	5.2%	5.6%	61,702	20,890	(1,634)	-	-	62,400	$15.05
Total	**358**	**14,781,192**	**4.5%**	**0.8%**	**5.4%**	**5.7%**	**87,702**	**35,798**	**7,290**	**-**	**-**	**62,400**	**$13.43**
BROOMFIELD													
Industrial	67	2,990,901	0.4%	0.0%	0.4%	0.9%	5,195	12,669	75,903	-	-	-	$6.59
Flex	10	221,565	1.6%	0.0%	1.6%	0.0%	-	(3,600)	(3,600)	-	-	-	$11.31
Total	**77**	**3,212,466**	**0.5%**	**0.0%**	**0.5%**	**0.8%**	**5,195**	**9,069**	**72,303**	**-**	**-**	**-**	**$6.86**
CENTRAL													
Industrial	307	10,579,027	3.5%	0.8%	4.3%	4.3%	32,535	(1,564)	65,339	-	-	-	$7.96
Flex	6	168,491	0.0%	0.0%	0.0%	0.0%	8,741	-	-	-	-	-	$9.20
Total	**313**	**10,747,518**	**3.4%**	**0.8%**	**4.2%**	**4.2%**	**41,276**	**(1,564)**	**65,339**	**-**	**-**	**-**	**$7.99**
EAST I-70/MONTBELLO													
Industrial	1,047	75,482,057	3.9%	0.8%	4.7%	4.3%	1,179,927	658,726	768,726	1,021,674	1,087,674	2,020,120	$6.11
Flex	27	1,041,924	4.4%	0.4%	4.8%	4.6%	-	(2,500)	(18,460)	-	-	-	$9.00
Total	**1,074**	**76,523,981**	**3.9%**	**0.8%**	**4.7%**	**4.3%**	**1,179,927**	**656,226**	**750,266**	**1,021,674**	**1,087,674**	**2,020,120**	**$6.25**

EXISTING PROPERTIES			VACANCY				ACTIVITY	ABSORPTION		CONSTRUCTION			RENTS
SUBMARKET/ CLASS	BLDGS	TOTAL INVENTORY SF	DIRECT VACANCY RATE	SUBLEASE VACANCY RATE	VACANCY RATE CURRENT	VACANCY RATE PRIOR QTR	LEASING ACTIVITY SF	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	DELIEVERIES CURRENT QTR SF	DELIEVERIES YTD SF	UNDER CONSTRUCTION SF	AVG RENTAL RATE (NNN)
LONGMONT													
Industrial	80	2,579,410	1.4%	0.5%	2.0%	1.6%	23,295	(9,962)	(11,612)	-	-	-	$8.74
Flex	28	2,012,416	4.0%	0.0%	4.0%	4.2%	33,650	4,721	53,366	-	-	-	$10.32
Total	**108**	**4,591,826**	**2.6%**	**0.3%**	**2.8%**	**2.7%**	**56,945**	**(5,241)**	**41,754**	**-**	**-**	**-**	**$9.58**
NORTH CENTRAL													
Industrial	417	16,601,230	4.0%	0.0%	4.0%	3.8%	118,241	(56,143)	(157,938)	-	-	-	$7.87
Flex	12	344,075	0.3%	0.0%	0.3%	0.3%	-	0	(1,100)	-	-	-	$12.79
Total	**429**	**16,945,305**	**4.0%**	**0.0%**	**4.0%**	**3.8%**	**118,241**	**(56,143)**	**(159,038)**	**-**	**-**	**-**	**$8.05**
NORTH													
Industrial	145	6,203,569	3.5%	0.0%	3.5%	3.8%	43,117	21,417	66,125	-	-	153,018	$6.94
Flex	12	487,911	2.7%	0.0%	2.7%	1.3%	3,618	(6,618)	(9,793)	-	-	-	$9.93
Total	**157**	**6,691,480**	**3.4%**	**0.0%**	**3.4%**	**3.6%**	**46,735**	**14,799**	**56,332**	**-**	**-**	**153,018**	**$7.37**
NORTHEAST													
Industrial	382	16,710,771	11.6%	0.0%	11.6%	11.7%	370,453	79,829	97,623	112,857	417,356	484,000	$9.48
Flex	13	473,188	6.3%	0.0%	6.3%	6.3%	4,800	0	(17,464)	-	-	-	$13.00
Total	**395**	**17,183,959**	**11.5%**	**0.0%**	**11.5%**	**11.6%**	**375,253**	**79,829**	**80,159**	**112,857**	**417,356**	**484,000**	**$9.52**
NORTHWEST													
Industrial	259	10,108,968	2.6%	0.1%	2.7%	3.4%	90,772	92,117	(53,415)	-	-	441,105	$8.58
Flex	39	987,950	9.9%	0.0%	9.9%	10.7%	6,420	7,902	(1,196)	-	83,291	-	$11.01
Total	**298**	**11,096,918**	**3.3%**	**0.0%**	**3.3%**	**4.0%**	**97,192**	**100,019**	**(54,611)**	**-**	**83,291**	**441,105**	**$9.25**
SOUTH CENTRAL													
Industrial	397	10,967,611	1.8%	0.1%	2.0%	1.8%	61,883	(19,349)	(6,176)	-	-	-	$8.00
Flex	13	381,967	0.0%	0.0%	0.0%	2.8%	-	10,837	10,837	-	-	-	$9.62
Total	**410**	**11,349,578**	**1.8%**	**0.1%**	**1.9%**	**1.8%**	**61,883**	**(8,512)**	**4,661**	**-**	**-**	**-**	**$8.08**
SOUTHEAST													
Industrial	216	8,699,784	1.7%	0.0%	1.7%	2.9%	51,417	104,229	104,229	-	63,550	212,000	$7.98
Flex	163	5,665,794	10.1%	0.0%	10.1%	10.3%	36,222	9,009	9,009	-	113,352	-	$11.98
Total	**379**	**14,365,578**	**5.0%**	**0.0%**	**5.0%**	**5.8%**	**87,639**	**113,238**	**113,238**	**-**	**176,902**	**212,000**	**$10.14**
SOUTHWEST													
Industrial	176	5,699,198	0.8%	1.7%	2.4%	2.5%	3,510	4,845	(19,946)	-	-	-	$8.34
Flex	51	1,758,326	7.5%	0.0%	7.5%	7.9%	67,811	6,919	(3,434)	-	-	-	$9.46
Total	**227**	**7,457,524**	**2.3%**	**1.3%**	**3.6%**	**3.8%**	**71,321**	**11,764**	**(23,380)**	**-**	**-**	**-**	**$8.98**
WELD COUNTY													
Industrial	401	16,322,635	0.3%	0.0%	0.3%	1.6%	36,382	220,585	142,565	-	-	-	$8.73
Flex	23	1,099,524	37.8%	0.0%	37.8%	37.5%	28,200	(2,834)	(1,092)	-	-	-	$6.23
Total	**424**	**17,422,159**	**2.6%**	**0.0%**	**2.6%**	**3.9%**	**64,582**	**217,751**	**141,473**	**-**	**-**	**-**	**$7.75**
WEST													
Industrial	219	14,114,273	1.2%	0.1%	1.2%	0.9%	22,989	(46,557)	114,466	-	-	-	$7.82
Flex	51	1,855,695	1.5%	0.0%	1.5%	2.2%	20,414	13,117	13,117	-	13,200	-	$10.70
Total	**270**	**15,969,968**	**1.2%**	**0.0%**	**1.2%**	**1.0%**	**43,403**	**(33,440)**	**127,583**	**-**	**13,200**	**-**	**$8.39**
MARKET TOTAL													
Industrial	4,384	207,286,391	3.6%	0.4%	4.0%	4.1%	2,067,716	1,079,375	1,195,813	1,134,531	1,568,580	3,310,243	$7.38
Flex	573	22,187,313	8.0%	0.1%	8.1%	8.4%	271,578	57,843	18,908	-	209,843	62,400	$10.63
Total	**4,957**	**229,473,704**	**4.0%**	**0.4%**	**4.4%**	**4.5%**	**2,339,294**	**1,137,218**	**1,214,721**	**1,134,531**	**1,778,423**	**3,372,643**	**$7.96**
DENVER MARKET QUARTERLY COMPARISON AND TOTALS													
Q2 17	4,957	229,473,704	4.0%	0.4%	4.4%	4.5%	2,339,294	1,137,218	1,214,721	1,134,531	1,778,423	3,372,643	$7.96
Q1 17	4,955	228,401,948	4.1%	0.4%	4.5%	4.6%	2,529,998	77,503	77,503	643,892	643,892	4,963,520	$7.85
Q4 16	4,952	228,165,242	4.2%	0.4%	4.6%	4.4%	4,659,383	698,614	2,381,670	1,198,283	4,194,806	3,620,525	$7.99
Q3 16	4,946	227,018,896	4.1%	0.3%	4.4%	4.4%	3,648,611	541,097	1,683,056	841,350	2,996,523	3,574,357	$7.75
Q2 16	4,943	226,400,416	4.2%	0.2%	4.4%	4.2%	4,002,779	1,231,165	1,141,959	1,854,698	2,155,173	2,894,424	$7.97



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under management

15,000
professionals
and staff

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